

RURAL WATER DISTRICT NO. 4
Nemaha County, Kansas

Years Ended December 31, 2015 and 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statements of Net Position	3 - 4
Statements of Revenues, Expenses and Changes in Fund Net Position	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 12
Supplementary Information:	
Rural Water District No. 4 Management's Discussion and Analysis for the Year Ended December 31, 2015	13 - 14

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Rural Water District No. 4
Nemaha County, Kansas

We have audited the accompanying financial statements of the Rural Water District No. 4, Nemaha County, Kansas, as of and for the years ended December 31, 2015 and 2014, which collectively comprise the District's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's

internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

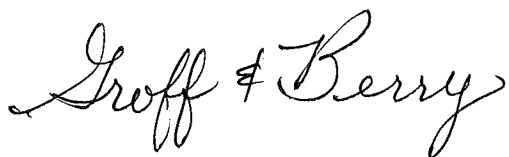
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Rural Water District No. 4, Nemaha County, Kansas, as of December 31, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 12 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Groff & Berry".

Topeka, Kansas
January 26, 2016

RURAL WATER DISTRICT NO. 4
Nemaha County, Kansas

STATEMENTS OF NET POSITION
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 230,484	\$ 149,277
Accounts receivable	<u>23,175</u>	<u>20,698</u>
Total current assets	<u>253,659</u>	<u>169,975</u>
Noncurrent assets:		
Debt reserve funds	<u>104,611</u>	<u>103,774</u>
	<u>104,611</u>	<u>103,774</u>
Capital assets:		
Depreciable capital assets	2,904,039	2,859,614
Less: accumulated depreciation	<u>(1,364,560)</u>	<u>(1,292,320)</u>
Total capital assets	<u>1,539,479</u>	<u>1,567,294</u>
Other assets:		
Bond issue costs, less amortization of \$ 4,353 and \$ 2,902	<u>15,961</u>	<u>17,412</u>
Total assets	<u>\$ 1,913,710</u>	<u>\$ 1,858,455</u>

The accompanying notes are an integral part
of these financial statements.

RURAL WATER DISTRICT NO. 4
Nemaha County, Kansas

STATEMENTS OF NET POSITION
December 31, 2015 and 2014

LIABILITIES AND NET ASSETS

	<u>2015</u>	<u>2014</u>
Current liabilities:		
Current maturities of long-term debt	\$ 55,000	\$ 55,000
Accounts payable and accrued liabilities	<u>25,526</u>	<u>2,439</u>
Total current liabilities	<u>80,526</u>	<u>57,439</u>
Long-term debt, less current maturities	<u>585,000</u>	<u>640,000</u>
Total liabilities	<u>665,526</u>	<u>697,439</u>
Net assets:		
Invested in capital assets, net of related debt	899,479	872,294
Restricted	104,611	103,774
Unrestricted	<u>244,094</u>	<u>184,948</u>
Total net assets	<u>1,248,184</u>	<u>1,161,016</u>
Total liabilities and net assets	<u>\$ 1,913,710</u>	<u>\$ 1,858,455</u>

The accompanying notes are an integral part
of these financial statements.

RURAL WATER DISTRICT NO. 4
Nemaha County, Kansas

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Water sales	\$ 255,403	\$ 249,970
Other	<u>5,326</u>	<u>12,131</u>
Operating revenues	<u>260,729</u>	<u>262,101</u>
Operating expenses:		
Payroll expense	54,317	52,270
Depreciation	72,240	71,532
Insurance	6,063	5,691
Utilities and telephone	22,854	23,901
Postage	1,179	1,289
Office and other expense	14,962	10,876
Repairs and maintenance	6,537	5,899
Chemicals	7,884	7,376
Taxes and water protection fee	1,749	1,734
Installation expense	2,763	22
Professional expense	10,119	4,075
Amortization	<u>1,451</u>	<u>1,451</u>
Operating expenses	<u>202,118</u>	<u>186,116</u>
Income from operations	<u>58,611</u>	<u>75,985</u>
Nonoperating revenues(expenses):		
Interest income	1,227	1,003
Interest expense	(15,953)	(16,962)
Benefit units	12,000	3,000
Contributed capital	<u>31,283</u>	<u>-</u>
Total nonoperating revenue (expense)	<u>28,557</u>	<u>(12,959)</u>
Changes in net assets	87,168	63,026
Net assets, beginning of year	<u>1,161,016</u>	<u>1,097,990</u>
Net assets, end of year	<u>\$ 1,248,184</u>	<u>\$ 1,161,016</u>

The accompanying notes are an integral part
of these financial statements.

RURAL WATER DISTRICT NO. 4
Nemaha County, Kansas

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Receipts from customers	\$ 258,252	\$ 257,679
Payments to suppliers	<u>(105,340)</u>	<u>(118,631)</u>
Net cash provided by operating activities	<u>152,912</u>	<u>139,048</u>
Cash flows from capital and related financing activities:		
Contributions - benefit units	12,000	3,000
Principal payments on long-term debt	(55,000)	(50,000)
Interest and loan fees paid	(15,953)	(16,962)
Purchase of fixed assets	(44,425)	(9,503)
Contributed capital	<u>31,283</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(72,095)</u>	<u>(73,465)</u>
Cash flows from investing activities:		
Interest	1,227	1,003
Increase in debt reserve funds	<u>(837)</u>	<u>(868)</u>
Net cash provided by investing activities	<u>390</u>	<u>135</u>
Net change in cash and cash equivalents	81,207	65,718
Cash, beginning of year	<u>149,277</u>	<u>83,559</u>
Cash, end of year	<u>\$ 230,484</u>	<u>\$ 149,277</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 58,611	\$ 75,985
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	72,240	71,532
Amortization	1,451	1,451
Change in assets and liabilities:		
Receivables	(2,477)	(4,422)
Payables	<u>23,087</u>	<u>(5,498)</u>
Cash provided by operating activities	<u>\$ 152,912</u>	<u>\$ 139,048</u>

The accompanying notes are an integral part
of these financial statements.

RURAL WATER DISTRICT NO. 4
Nemaha County, Kansas

NOTES TO FINANCIAL STATEMENTS

1 - Description of Entity

Organization

The Rural Water District (the "District") was established as a tax exempt organization to acquire water and water rights and to build and acquire pipe lines for the purpose of furnishing water to owners and occupants of land located within the district. The District began providing water to its customers in April of 1996. Total customers at December 31, 2015 and 2014 were 254 and 250.

2 - Summary of Significant Accounting Policies

a. Basis of Presentation and Accounting - The District's financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply applicable GASB pronouncements, including GASB Statement no. 34, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research bulletins, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the statement of net assets. Net assets (i.e. total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimated and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

b. Cash and Cash Equivalents - For purposes of the statements of cash flows the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

RURAL WATER DISTRICT NO. 4
Nemaha County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

2 - Summary of Significant Accounting Policies (Continued)

c. Property, Plant and Equipment - Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to income as incurred; significant renewals and improvements are capitalized.

d. Income Taxes - The District is a quasi-governmental unit, not subject to federal or State income taxes.

e. Debit Issue Costs - Costs related to the issuance of debt have been capitalized and are being amortized on a straight-line basis over the term of the debt.

f. Net Assets - Net assets comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in Capital Assets, Net of Related Debt - This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

g. Subsequent Events - Management has evaluated subsequent events through January 26, 2016, the date which the financial statements were available for issue.

RURAL WATER DISTRICT NO. 4
Nemaha County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

3 - Capital Assets

Changes in capital assets were as follows:

	<u>2014</u>	<u>Additions</u>	<u>Transfers</u>	<u>2015</u>
Depreciable capital assets:				
Water system	\$ 2,812,346	\$ 43,851	\$ -	\$ 2,856,197
Building	37,828	-	-	37,828
Office furniture and equipment	<u>9,440</u>	<u>574</u>	<u>-</u>	<u>10,014</u>
	2,859,614	44,425	-	2,904,039
Less accumulated depreciation	<u>(1,292,320)</u>	<u>(72,240)</u>	<u>-</u>	<u>(1,364,560)</u>
Total capital assets	<u>\$ 1,567,294</u>	<u>\$ (27,815)</u>	<u>\$ -</u>	<u>\$ 1,539,479</u>
Depreciable capital assets:				
Water system	2,802,843	9,503	-	2,812,346
Building	37,828	-	-	37,828
Office furniture and equipment	<u>9,440</u>	<u>-</u>	<u>-</u>	<u>9,440</u>
	2,850,111	9,503	-	2,859,614
Less accumulated depreciation	<u>1,220,788</u>	<u>(71,532)</u>	<u>-</u>	<u>1,292,320</u>
Total capital assets	<u>\$ 1,629,323</u>	<u>\$ (62,029)</u>	<u>\$ -</u>	<u>\$ 1,567,294</u>

Depreciation expense for the year ended December 31, 2015 and 2014 was \$ 72,240 and \$ 71,532, respectively.

RURAL WATER DISTRICT NO. 4
Nemaha County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - Long-Term Debt

Series 2012 Revenue Bonds

In October 2012 all debt remaining at the time on the Rural Economic and Community Development loans discussed below was refinanced with the issuance of Series 2012 Revenue bonds in the amount of \$ 795,000. The average net interest rate of the bond issue is 2.42% with a final bond maturity scheduled for December 1, 2026. The bond issue funded refinancing of existing debt only. There were no additional asset purchases associated with the bond issue. The first bond principal payment was scheduled for December 1, 2013. Per the agreement, the District maintains a loan reserve account in the amount of \$ 102,020 which is on deposit with a bank in the form of two certificates of deposit with Merit Bank.

The District is required to maintain a Debt Service Coverage Ratio, as defined in the loan agreements of at least 125%.

Interest expense on long-term debt totaled \$ 15,953 and \$ 16,962 for the years ended December 31, 2015 and 2014, respectively.

Changes to the District's long-term debt are as follows:

Total long-term debt, beginning	\$ 695,000
Principal payments	<u>55,000</u>
Total long-term debt, ending	640,000
Less current portion	<u>55,000</u>
Noncurrent portion	<u>\$ 585,000</u>

RURAL WATER DISTRICT NO. 4
Nemaha County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

4 - Long-Term Debt (Continued)

Future maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>
2016	\$ 55,000	\$ 14,945
2017	55,000	13,845
2018	55,000	12,745
2019	55,000	11,645
2020	60,000	10,545
2021 - 2025	310,000	32,255
2026	<u>50,000</u>	<u>1,450</u>
	640,000	\$ <u>97,430</u>
Less current portion	<u>55,000</u>	
	<u>\$ 585,000</u>	

Debt service coverage ratio calculation:

Income	\$ 87,168
Add:	
Depreciation and amortization	73,691
Interest expense	<u>15,953</u>
Income available for debt service	<u>176,812</u>
Debt service	
Interest expense	14,945
Principal payments	\$ <u>55,000</u>
Total debt service requirements	<u>69,945</u>
Debt service coverage ratio	<u>2.52</u>

Effective January 1, 2014, the district increased rates to cover the debt service ratio.

RURAL WATER DISTRICT NO. 4
Nemaha County, Kansas

NOTES TO FINANCIAL STATEMENTS
(Continued)

5 - Cash and Deposits

Deposits - At December 31, 2015, the District's deposits were covered by federal depositor insurance and depository security with an approximate value of \$ 100,000.

6 - Concentration of Credit Risk

The District is engaged in the sale of water to customers located in an area around Nemaha County, Kansas. The District grants credit to those customers and requires no collateral.

7 - Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representative of the water district. There were no apparent statutory violations during the year ended December 31, 2015.

SUPPLEMENTARY INFORMATION

RURAL WATER DISTRICT NO. 4
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR
THE YEAR ENDED DECEMBER 31, 2015

The discussion and analysis of Rural Water District No. 4's financial performance provides an overview of the District's financial activities for the year ended December 31, 2015. Please review it in conjunction with the District's basic financial statements.

FINANCIAL HIGHLIGHTS

Total net assets increased by \$ 87,168 to \$ 1,248,184, which includes noncash expenditures for depreciation and amortization of \$ 73,691.

Cash flows of the District from operations increased cash in the amount of \$ 81,207 during the year.

Water sales increased \$ 5,433 to \$ 255,403 as usage remained approximately the same as the prior year and operating expense increased \$ 16,002 to \$ 202,118.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position provide information about the activities of the District as a whole and present a longer-term view of the District's finances.

The Statements report information about the District and about its activities to provide information about the financial position and the changes during the year. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to accounting used by most private-sector companies.

Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These statements report the District's net assets, changes in net assets and the cash flow to provide a measurement of the District's financial health or position. You will need to consider other financial and non-financial factors, however, such as changes in the District's area and economy to assess the overall health of the District.

The Notes to Financial Statements provides additional information that is essential to a full understanding of the data provided in the financial statements.

REQUEST FOR INFORMATION

This financial report is designed to provide an overview of the District's finances. Questions concerning any information should be addressed to the District at P.O. Box 160, Wetmore, Kansas 66550.